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NATIONAL BANKING SYSTEM AND FEDERAL BOND ISSUES

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Years count in a country so new as the United States, and the national banking system may be regarded as one of our time-honored institutions. For nearly half a century, the national banks have been dominant among the banks of the United States, which as a whole measure more than one-third of the banking power of the world. Our present national banks, the result of the latest attempt to establish banking by direct authority of the federal government, have long survived the period allotted their predecessors, the First and Second Banks of the United States; and the existing federal system of banks bids fair, if its great prestige at this time and past record are indications, to continue indefinitely as the most important of the several groups or classes of banks operating in the field of credit and exchange.

From the earliest days of banking there has been close intimacy between that function and the needs of government; in fact, banks grew out of such necessities. The Bank of Venice, supposed to have been formed in 1171, was organized for the purpose of funding the public debt. The Bank of Genoa, 1407, had a similar origin; while the Bank of Amsterdam, 1609, was organized to handle more effectively the accumulations of light-weight coins brought into Holland through its great foreign trade of that time. A loan to the government of £1,200,000, its entire capital, was the beginning of the Bank of England, in 1694. The present Bank of France, which has served the people of that country so well since 1800, was founded by Napoleon to act both as a fiscal agent and an aid to commerce. In our own country, the Bank of Pennsylvania, 1780, was organized by patriotic citizens almost solely with a view to financing the war then in progress. The First and Second Banks of the United States were most intimately related to the fiscal requirements of the federal government; and, of all examples

history affords, none can match the tremendous necessities that led to the passage of the national currency act of February 25, 1863, from which dates the beginning of our national banking system.

A civil war, the costliest and most prodigious ever known, was then in progress. The existence of the United States as a nation was at stake. Wars mean expenditure. They are fought by the army, the navy and the treasury. Without the latter, the army could never be recruited and maintained and the navy would be helpless. Some of the greatest battles of the Civil War were fought in the United States Treasury; and Hugh McCulloch, who as the first Comptroller of the Currency, organized the national banking system, and later twice held the treasury portfolio, states, in his "Men and Measures of Half a Century," that, next to Lincoln himself, the man most entitled to the credit of saving the nation was Salmon P. Chase, Secretary of the Treasury. Without any previous financial experience, he was called upon to provide ways and means of financing the war, and the huge sums raised by the various expedients which he employed are appalling in their magnitude even in this day of gigantic figures. The public credit was at a very low state immediately preceding the outbreak of the war. At the close of the year 1860 the national debt was only \$65,000,000. With bills maturing January 1, 1861, requiring payment, the then Secretary of the Treasury offered \$5,000,000 of treasury notes for sale, and was able to dispose of them only after considerable effort at twelve per cent per annum. At the close of the war in 1865 the total ascertained indebtedness of the United States was \$2,807,951,000.

The federal charter of the Second Bank of the United States expired in 1836, and from that year until 1863 the field for the circulation of bank notes was occupied by the issues of state banks. These at the outbreak of the Civil War amounted to about \$202,000,000, and compared with specie were to a large extent at a discount of from one to five percentum. Lack of uniformity in the paper currency, long recognized as one of the evils growing out of state bank issues, became more troublesome as the war progressed; and one of the two principal reasons advanced in behalf of a national circulation was the desirability of securing a uniform bank currency. The other—and perhaps the determining one—was the necessity of making a broader market for government bonds.

As early as December, 1861, the treasury and all the banks in the United States suspended specie payments. Gold was at a premium and the government was obliged to resort to an issue of \$50,000,000 in demand notes. The first legal tender act, passed February 25, 1862, permitted the issue of \$150,000,000 so-called "greenbacks." Congress on July 11, 1862, authorized an additional \$150,000,000 in legal tenders. By the early autumn of that year the demand notes depreciated below specie by as much as eleven per cent. In the midst of these issues of legal tenders, and with the financial problems of the war becoming more and more difficult, the plan of a national banking system was taking shape. The first official suggestion relating to it is found in the annual report of Secretary Chase to Congress in December, 1861, at which time, however, he seems not to have favored the organization of new banks so much as the issuance of national notes to existing institutions, to be secured by the pledge of United States bonds. The absence of any suggestion in his report favoring the establishment of a banking system indicates clearly that the government was seeking, above everything else, a market for its bonds. Soon after the report was submitted to Congress, Hon. E. G. Spaulding, a member of a sub-committee of the committee on ways and means, entered into correspondence with the Secretary of the Treasury with a view to carrying out the suggestion contained in his report. Mr. Spaulding enlarged upon the idea by drafting a bill based in great part upon the free banking laws of several of the states. The bill was not presented until July, 1862, when it was referred to the committee on ways and means. In the meantime, the treasury was financed through issues of legal tender notes which were immediately available. Another cause of delay was the strong opposition of the state banks to the new measure. At the beginning of 1863, there were 1,466 banks in the United States, with an aggregate capital of \$405,000,000, and their circulation at that time had reached \$238,677,000. The time had arrived, however, when consideration of the national currency act could no longer be postponed. It was introduced in the house January 7, 1863, and referred to the committee on ways and means, by which, largely owing to the opposition of state banks, it was reported adversely. On January 26 it was introduced in the senate by Senator Sherman. It passed the senate February 12, 1863, the house agreed to it without amendment,

February 20, and it became a law February 25, 1863, by the signature of President Lincoln.

By this act, banks operating immediately under the supervision of the government were permitted to be established, and they were given power to issue circulating notes secured by the pledge of United States bonds and guaranteed by the government. Hugh McCulloch, who had long presided over the State Bank of Indiana, was appointed Comptroller of the Currency. No fitter selection could have been made. His long and successful experience as a banker and his familiarity with the subject, both in theory and practice, admirably equipped him for the responsible work of organizing the new system. In actual operation, the act of February 25, 1863, soon proved to be defective in several important particulars, chief of which was its failure to provide for the redemption of bank notes except at the counters of the issuing banks, for which purpose they were required to maintain a reserve of twenty-five per cent. One of the main objects of the act was to encourage the conversion of state banks into national institutions. It was found to be ineffective in this direction because the state banks were reluctant to abandon their old names in exchange for numerical titles, such as "First," "Second," "Third," etc. These objections and others of a minor character resulted in the repeal of the act of February 25, 1863. This was done by the act of June 3, 1864, which was substantially a re-enactment of the previous law with such corrections as the experience of a few months of actual operation demonstrated to be necessary.

Many legislative changes affecting national banks have been made since the organic acts were passed. Among the earlier, was the act of March 3, 1865, imposing a prohibitive tax of ten per cent on the circulating notes of state banks. This resulted in giving the national banks exclusive circulation privileges, which they enjoy to this day. The tendency of later laws has been to liberalize the system as it has developed strength. In 1874, the system was so far regarded as a fixture that Congress, in passing some amendatory legislation, saw fit to declare "that the act entitled 'An act to provide a national currency secured by a pledge of United States bonds, and to provide for the circulation and redemption thereof, approved June 3, 1864,' was hereafter to be known as 'The National Bank Act.'" A national bank redemption agency was authorized by the

act of June 20, 1874, and this resulted in the establishment of a redemption bureau in the Treasury Department at Washington, the expense of which is borne by the banks according to the amounts of circulating notes redeemed for each during the year. By the same act, the requirement that reserves be maintained against circulation was repealed.

All national banks are chartered for a period of twenty years. Congress passed an act, July 12, 1882, to enable national banking associations to extend their corporate existence for a further period of twenty years and, in 1902, a similar act was passed. The acts of 1863 and 1864 limited the aggregate amount of circulating notes which might be issued to \$300,000,000. This limit was subsequently raised to \$354,000,000 by the act of July 12, 1870, and was entirely removed by what is known as the "Resumption Act" of January 14, 1875.

It is hardly necessary to review step by step the legislation by which the national banking laws have been brought to their present satisfactory state. The Act of March 14, 1900, which gave finish to, and rounded out, the system, has had a greater influence upon national banking than all the legislation preceding it. Under this act the minimum capital was fixed at \$25,000 in any place the population of which does not exceed 3,000 inhabitants. The former minimum was \$50,000, and the object of the amendment was to encourage the organization of small banks in communities which were denied banking privileges because of inability to qualify with the larger capitalization. The provision was also intended as an inducement to the conversion into national institutions of state banks having a capitalization of less than \$50,000. The act repealed the former law which authorized banks to take out circulation only to the extent of ninety per cent of the market value and not exceeding the par value of the bonds deposited as security therefor, and provided that notes equal in amount to the par value of bonds deposited could afterwards be taken out. Banks were also permitted to take out circulation up to the full amount of their capital, whereas until the date of this act a bank could take out circulation only to the extent of ninety per cent of its capital. The tax upon circulation was reduced from the former rate of one per cent per annum to one-half of one per cent per annum when secured by two per cent

bonds which the act authorized to be exchanged for old issues bearing higher rates.

As the result of the passage of the Act of March 14, 1900, a remarkable development has taken place during the last ten years. In his report to Congress, December, 1909, the Comptroller of the Currency stated: "Since March 14, 1900, the date of the act authorizing the organization of banks with a capital of \$25,000, charters have been granted to 4,308 associations, with an aggregate capital of \$261,083,300, a number greater by 691 than the number of banks in existence on the date of the passage of the act in question." How great an effect the act has had upon circulation accounts is shown by the statement that on the day it became a law there was outstanding \$216,374,795 of notes secured by bonds, while on June 30, 1910, the aggregate was \$685,517,013. This increase of \$469,000,000 in circulating notes during the last ten years has no doubt had a marked effect upon prices in the United States. At times there has been evidence of redundancy. This is particularly noticeable in the redemptions of circulating notes, which, during the year 1909, reached the enormous total of \$489,923,468.

The number of national banks in operation June 30, 1910, was 7,145. Their combined capital was \$989,567,114, surplus \$644,857,482, undivided profits \$216,546,125 and their circulation \$675,632,565. Their individual deposits aggregated \$5,287,216,312, and their combined resources were \$9,896,624,696. The following table from the report of the Comptroller of the Currency shows for 1909 the banking power of the United States as indicated by the volume of capital stock, surplus, deposits and circulation:

	Number.	Capital.	Surplus, etc.
National banks	6,893	\$933,979,903	\$795,077,107
State, etc. banks.....	15,598	866,056,465	1,039,548,321
Non-reporting banks ¹	3,021	55,951,000	27,975,500
	<hr/> 25,512	<hr/> \$1,855,987,368	<hr/> \$1,826,600,928
	Deposits.	Circulation.	Total.
National banks	*\$4,896,462,203	\$636,367,526	\$7,261,886,739
State, etc., banks.....	9,209,462,780	11,115,067,566
Non-reporting banks	389,700,000	473,626,500
	<hr/> \$14,495,624,983	<hr/> \$636,367,526	<hr/> \$18,850,580,805

¹Number of banks and amounts estimated.

²Includes government deposits.

It will be observed from the foregoing that in resources state banks, trust companies, etc., combined, exceed the national banks. The tendency in this direction during late years has led to some agitation in favor of further liberalizing national bank laws so as to permit national banks to make loans on real estate and to accept some other classes of business which now fall naturally to trust companies. There have also been suggestions relating to a change in the law as to the reserves of national banks, in order to enable them to compete with trust companies in this respect. None of these suggestions has taken form as yet, but some of the large national banks of the country have affiliated themselves with trust companies in such manner as to accomplish rather effectively any object that might be attained by permission to engage in business which is now forbidden to national banks.

Although there were in operation, June 30, 1910, 7,145 national banks, 9,803 have been organized since the beginning of the system. Complete figures are not available for 1910, but on October 31, 1909, there had been 9,572 national banks organized, of which 484 were eliminated as the result of insolvency, and 2,063 placed in voluntary liquidation. At that time the affairs of 416 insolvent banks had been liquidated, creditors having received on the average 82.29 per cent of their claims. At the date of failure, circulating notes of these banks aggregated \$21,228,613, secured by bonds of the par value of \$23,917,150, from which was realized \$24,811,757, or \$3,583,144 in excess of the circulation for which the bonds were pledged.

From the beginning of the national system to June 30, 1909, taxes paid on circulation, capital and deposits have aggregated \$183,662,698.98. In the annual report of the Comptroller of the Currency for 1909, it was shown that the expenses of the currency bureau from 1863 to that date were approximately \$25,000,000. Thus the banks have paid to the government over and above the cost of operation of the currency bureau, more than \$158,000,000. The tax paid on circulation alone has averaged annually about four times the average annual expense incident to the operation of the currency bureau. This fact has led to the suggestion that the circulation taxes should be further reduced. Even under the liberal provisions of the Act of March 14, 1900, allowing circulation up to the par of the bonds pledged as security, there is still only a small

margin of profit to the banks in their circulation accounts. In his annual report for 1909, the comptroller shows that, with the market price of two per cent bonds at 101.052, the profit on national bank circulation is only 1.334 per cent. The profit on circulation secured by Panama bonds with a market value of 100.595 was only 1.384 per cent, while the profit on circulation secured by 4s of 1925 with a market value of 117.320 was 1.211 per cent.

A section of the Currency Act of June 3, 1864, authorized the use of national banks as depositaries of public funds. This has been amended from time to time. At present any national bank may be designated by the Secretary of the Treasury as such depositary. The banks chosen are required to secure public deposits by the pledge of United States bonds *and otherwise*. The phrase in italics was construed by Secretary of the Treasury Shaw to include state, municipal and railroad bonds. His construction was apparently confirmed by Congress in the Act of March 4, 1907, requiring the secretary to make public a statement before the first of January of each year of the securities required during that year for such deposits. The present Secretary of the Treasury announced last December that for the year 1910 he would accept United States, Philippine, Porto Rican and District of Columbia bonds at par, bonds of Hawaiian Territory at ninety per cent of par, and bonds of the Philippine Railway Company at ninety per cent of their market value, but not exceeding ninety per cent of par. June 30, 1910, there were 1,378 depositary banks, of which 414 held regular accounts. These latter are utilized mainly in the collection of the revenues and in making disbursements. There were 964 temporary or special depositaries with no other function than to hold the funds lodged with them. On all special and additional deposits, that is such as are not required by the treasury to be maintained for its own convenience, banks pay interest at the rate of not less than one per cent per annum on the average monthly balances. June 30, 1910, the depositary banks held to the credit of the treasurer and disbursing officers a total of \$52,209,585.

With respect to the withdrawal of national bank circulation, the Act of May 30, 1909, provides that not more than \$9,000,000 lawful money shall be deposited in any one month for that purpose. The limit was formerly \$3,000,000. This restriction does not apply

to the additional circulation authorized by the Emergency Currency Law.

So far as reserve requirements are concerned, there are three classes of national banks. Those in the central reserve cities of New York, Chicago and St. Louis must maintain in their own vaults against deposits, exclusive of government funds, a reserve of twenty-five per cent in lawful money. Those in forty-six reserve cities must also keep twenty-five per cent against such deposits, but one-half of this may be kept with banks duly qualified as reserve agents in the central reserve cities. All other banks are required to have a reserve of fifteen per cent, of which three-fifths may be kept with banks in either reserve or central reserve cities.

The interest bearing debt of the United States on August 15, 1910, aggregated \$913,316,590, as follows: four per cent loan of 1925, \$118,489,000; three per cent bonds of 1908-18, \$63,945,460; two per cent consols of 1930, \$646,250,150; two per cent Panama bonds of 1936 and 1938, \$84,631,980. Roundly, eighty per cent of this entire debt is held by the national banks. They have deposited with the Treasurer of the United States \$689,123,510 to secure circulation and \$38,314,200 to secure deposits of public moneys. The Comptroller of the Currency estimated in his report for 1909 that on September 1st of that year, according to reports of condition of national banks, there was evidenced the ownership by the banks of other United States bonds to the additional amount of \$23,145,640. If the unpledged holdings of banks have not been decreased since then their present ownership, including bonds deposited as security for circulation and public moneys, would aggregate \$750,583,350, leaving only \$162,733,240 held otherwise than by the banks. It is probable, however, that some of the unpledged bonds then reported have found their way to circulation accounts during the year. This enormous holding of government bonds is largely the result of legislation contained in the Act of March 14, 1900. Among other things, that act provided for refunding the national debt, except that portion of it represented by the 4s of 1925, of which there are now outstanding \$118,489,000. There were refunded: 3s of 1908-18 to the amount of \$132,449,900, 4s of 1907 to the amount of \$441,728,950, and 5s of 1904 to the amount of \$72,071,300, making a total of \$646,250,150 bonds bearing three per cent, four per cent and five per cent interest, refunded into consols of 1930 bearing two per

cent interest. The exchange was effected at a net profit to the government of \$16,551,037.54. As the new consols were favored in circulation accounts by a reduction of the tax on circulation to one-half of one per cent per annum, as against the old rate of one per cent, they naturally found ready market with the banks. Out of a total issue of \$646,250,150 consols, they have lodged at the treasury either as security for circulation or public deposits, \$603,916,700. The Panama issues, which have the same circulation privilege, aggregate \$84,631,980, and these were sold at a premium of \$2,677,-614.83. The banks have on deposit at the treasury \$82,321,020 of these bonds either as security for circulation or deposits. These figures show that the market for our low interest bearing bonds has been found almost exclusively with the banks. It was always an artificial market, resulting from special inducements, and was almost wholly unrelated to an investment basis. The 2s of 1930, during the period of surplus revenues, from 1903-1906, sold as high as 110 in the market, at which time British consols bearing two and three-quarter per cent were selling below 90. Many banks purchased bonds at high premiums in order to qualify as depositaries of public moneys, and it has been estimated that on the whole the average cost to the banks of their enormous holdings of the consols is in the neighborhood of 105. The deficient revenues in recent years have resulted in great withdrawals of public moneys from the banks. From as high as \$249,233.643 on December 27, 1907, deposits fell to \$33,-764,569 on April 5, 1910, releasing among other securities many millions in government bonds. With an important avenue for their use thus closed, prices fell to points dangerously close to par. As a result of this decline it has been estimated that banks have suffered a depreciation in premiums on government bonds anywhere from \$25,000,000 to \$30,000,000.

Such was the state of affairs when the Tariff Act of August 5, 1909, was passed, which contained legislation authorizing an additional issue of \$290,569,000 bonds to complete the construction of the Panama Canal. These bonds are to bear interest at a rate not exceeding three per cent. The Act of June 28, 1902, authorized \$130,000,000 Panama bonds to bear interest at the rate of two per cent per annum, and of these \$84,631,980 have been issued. As shown above, with the exception of a little over \$2,000,000, they are all owned by national banks and were sold by the government

at prices ranging from 102.2778 to 104.036. Even before the passage of the Act of August 5, 1909, it had become apparent that the government could no longer market a bond bearing a rate as low as two per cent. The artificial market was exhausted; and, owing to the redundancy following the currency panic of 1907, the national banks were having great difficulty in keeping their notes in circulation. There had been a great increase in circulation during and immediately following the panic. October 1, 1907, the outstanding bond secured circulation was \$556,101,330. In three months it rose to \$643,459,898; and, notwithstanding the general decline in business which was the aftermath of the great disturbance in 1907, it never sought retirement. Thus with circulation accounts full and overflowing, the bank market for low interest bearing bonds practically disappeared. When, therefore, the tariff bill was introduced in the senate the chairman of the committee on finance of that body announced that legislation would be required in the pending bill to change the character of the bonds which may be issued. He admitted that the twos could only be purchased by or for the national banks, and that it would not be possible to sell to individual investors a considerable amount of bonds of this character at par.

The bond legislation contained in the Tariff Act of August 5, 1909, fixing three per cent as the maximum rate of interest which the bonds may bear, seems utterly to have disregarded the equities involved in the enormous bank holdings of the two per cent issues. Leaving the tax on circulation to be secured by the new bonds at one per cent, it discriminated against the 2s. The reduction in the circulation tax by the Act of March 14, 1900, was to make refunding attractive and to induce the banks to part with their holdings of three per cent, four per cent and five per cent bonds in exchange for the two per cents. An increase of one per cent in the interest rate would have required, in order to establish a parity between the new bonds and the 2s, that there be also an increase of one per cent in the tax on circulation secured by the 3s. In other words, to place the proposed new 3s on the same footing with the old 2s, the tax on circulation secured by the former must necessarily be one and one-half per cent, the tax on the latter being one-half of one per cent. An effort to introduce some such provision into the law failed, with the result that notwithstanding the treasury was in need of funds to meet canal expenditures, it has never been able to avail

itself of the bond authorization in the tariff act. The Secretary of the Treasury was compelled to announce that the Treasury Department would not issue any of the new Panama bonds before the next Congress had had the opportunity to change the circulation tax, and he declared that he felt it a duty of the government to see that the two per cent bonds have the protection of a parity. In the meantime if treasury conditions demanded it he proposed to sell only three per cent certificates of indebtedness with a term limited to one year. These latter were originally authorized by the War Revenue Act of 1898, and this authority was confirmed and enlarged by the Tariff Act of August 5, 1909. No occasion has since arisen for a resort to temporary certificates, but the general fund of the treasury, out of which Panama expenditures have been met, was entitled to reimbursement on August 15, 1910, in the sum of \$121,228,305.66. Congress has not yet seen fit to take any steps to relieve the situation, and the bond authority of the recent tariff act is still regarded as unavailable. The disinclination to make the necessary adjustment of the circulation taxes is understood to be due to the desire not to introduce any financial legislation into a situation which the National Monetary Commission, authorized by the Emergency Currency Act of May 30, 1908, and now engaged in a study of the currency, wishes to control.

Following the currency panic of 1907, great pressure was brought to bear upon Congress to amend the banking and currency laws in such manner as to prevent a recurrence of similar trouble. This led to the passage of "An act to amend the national banking laws, approved May 30, 1908," popularly known as "The Emergency Currency Law." It is to expire by limitation on June 30, 1914. Meantime should there be an emergency which in the opinion of the Secretary of the Treasury would justify additional bank circulation, it may be taken out in either of two methods prescribed by the act as follows:

1. National banks occupying contiguous territory may organize a national association. There must be at least ten national banks in each national currency association, and the aggregate capital and surplus of such national banks must be at least \$5,000,000. No national bank may join a national currency association unless it has an unimpaired capital, and surplus of not less than twenty per cent. After the formation of an association any national bank belonging thereto, whose outstanding circulating notes actually issued against

United States bonds amount to not less than forty per cent of its capital may obtain additional circulating notes by depositing with the association in trust for the United States any securities, including commercial paper. But additional notes will only be issued upon the recommendation of the Comptroller of the Currency and the approval of the Secretary of the Treasury, and then not exceeding seventy-five per cent of the cash value of the securities or commercial paper so deposited. There is a proviso also that no national bank association shall be authorized in any event to issue circulating notes based upon commercial paper in excess of thirty per cent of its unimpaired capital and surplus.

2. National banks possessing the same qualifications as to unimpaired capital and surplus required of banks joining a national currency association, and whose circulating notes outstanding and actually issued against United States bonds are equal to forty per cent of its capital stock, may obtain additional circulating notes not exceeding ninety per cent of the market value but not in excess of the par value of bonds or other interest bearing obligations of any state of the United States, or any legally authorized bonds issued by any city, town, county, or other legally constituted municipality or district in the United States which has been in existence for ten years and which for a period of ten years previous to such deposit has not defaulted in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it, and whose net funded indebtedness does not exceed ten per cent of the valuation of its taxable property.

State, city, town, county and other municipal bonds of the character described above are also acceptable as security for additional circulation taken out through the medium of a national currency association, and will be received by the treasury at ninety per cent of the market value, but not exceeding par. The limit of such additional circulation is placed by the law at \$500,000,000. Additional circulation is subject to a tax of five per cent per annum for the first month, which is increased one per cent per annum each month thereafter until it reaches ten per cent. No occasion has yet arisen for the use of any of this circulation, but the treasury has made complete preparation for it by having \$500,000,000 printed which is held in stock ready for issuance in case conditions should require it.

The national banks of the District of Columbia were the first to organize a currency association. They formed one June 18, 1908, largely at the instance of the then Secretary of the Treasury, who desired that the capital should set an example for the rest of the country. No other associations were organized until the summer of 1910, when Secretary MacVeagh made an effort to induce other

sections of the country to provide and have ready a workable equipment so that there might not be any delay in the event of a necessity for issuing additional circulation. As the result of this effort there have been formed currency associations in New York, Boston, New Orleans, Philadelphia and Atlanta, Ga. As this is being written many other sections have under consideration the formation of associations.

The latest legislation having a bearing upon either national banks or government bonds is to be found in the Act of June 25, 1910, to establish postal saving banks. This law authorizes an issue of two and one-half per cent bonds, but they are not available as security for national bank circulation. In case postal deposits should reach any considerable figure some portion of them might be invested in these bonds, thus placing the treasury in funds and avoiding, for a time at least, any financing on account of the Panama Canal.

There is also a possibility that the proceeds of the two and one-half per cent bonds authorized by the postal savings bank law might be utilized in refunding the \$63,945,460 United States 3s of 1908-18 which are payable at the pleasure of the government at any time before August 1, 1918. If a central bank of issue shall ever be established, supplanting the national banks in their note issuing functions, a very great problem must be solved as to the disposition of the present enormous bank holdings of government bonds. It is thought by some that the postal savings bank law may afford relief in this respect; but, in order to do this, the growth in postal savings deposits would have to exceed anything that the most ardent advocates of that scheme have ever claimed for it. Postal saving banks have been in existence in England since 1861. In 1908, their deposits were in the neighborhood of \$782,000,000. It may not take so long in the United States to develop a postal savings bank system with that amount of deposits, but it will probably be many years before this figure is reached. Nothing less than such a sum would suffice to relieve the banks of their holdings of government bonds should the circulation privilege be transferred to a central institution.

It will be observed that the history of national banking is closely interwoven with that of government bonds. Forty-seven years ago the system was established to help make a market for them. The

banks rendered noteworthy service in refunding the war issues during the period from 1870 to 1879, and finally under the stimulus of the Refunding Act of March 14, 1900, they were induced to become the holders of a very large part of the national debt, their ownership now representing four-fifths of the whole.

In the main the national system has worked well. It has unquestionably furnished a perfectly secured and a uniform bank note circulation, but it has failed in one important respect. Circulation has never been responsive to the business requirements of the country. It has almost invariably expanded when it should have diminished, and contracted when it should have expanded. Related as note issues are to government bonds, circulation has followed the price of these securities in the market and not the volume of business. Lack of elasticity is the vital defect of our bank currency. Chambers of commerce, bankers' associations, congressional committees, comptrollers of the currency and secretaries of the treasury have for years sought the solution of this problem. The remedy is yet to be found. Perhaps the Monetary Commission will find it.